

Peltzman

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SANTA BARBARA • SANTA CRUZ

DEPARTMENT OF ECONOMICS
LOS ANGELES, CALIFORNIA 90024

4 May 1973

Professor Joshua Lederberg
Department of Genetics
School of Medicine
Stanford University
Stanford, Calif. 94305

Dear Joshua,

It was good to meet you, however briefly, during my trip to Stanford. I returned here to find the material you had sent me in my mailbox.

The point you seek to make is fairly clear, but I am not sure I can agree with all of it. I would rather judge drug advertising by its results rather than its form, and these results do not strike me as outrageously bad. In the area of drug efficacy, the result seems to be that doctors make a choice which experts might call wrong 10 percent of the time. (I suspect if I demanded unanimity from multiple sets of experts, this percentage might be much smaller). Even if that strikes you as outrageously high, I have yet to see an alternative that can reduce this figure at an acceptable cost. Certainly, as I tried to indicate, the 1962 Amendments haven't done this. Nor, I suspect, would the greater reliance on generic prescribing which you advocate.

The reason for this last assertion stems from my belief that an important role of otherwise ~~meretricious~~ advertising is frequently overlooked by those with your degree of sophistication. As I look over the ads you sent me, the common feature that strikes me is the heavy reliance on promoting the brand and company name. In many ways, the message is simply "trust me and my products". One effect of all of this is to create an extremely valuable asset in company reputation which is, as it were, a hostage to subsequent poor performance of the company products. Conversely, the smaller the size of this asset, the smaller the incentive to guard against poor performance. If this strikes you as fanciful, try to reconstruct your own behavior in purchasing products where you are somewhat less knowledgeable than in drugs. I would bet your decision is influenced, to some degree, by your perception of a seller's reputation, which is also widely advertised. Unfortunately, unless we are willing to commit enormous resources (the value of which remain to be shown) to physician education, the typical physician will base a lot of his judgment on seller reputation. In so important an area, I would be loath to see a substantial reduction in the return to investment in this reputation. This is why I am less troubled than you at the success of much drug advertising which has little directly ascertainable information value, though I would surely agree that the law should

my office
10/10/73
trunk

stereotypes
meretricious
brand name
company

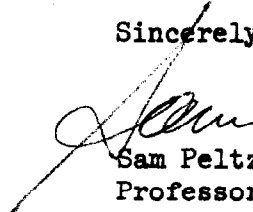
other people
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represents
M.P.S.

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not be biased toward sale of the brand name when a doctor intends otherwise. Thus, to the extent that you are advocating that competition between seller reputation and other ideas, like generic prescribing, be placed on a more equal legal footing, I would agree with you.

With best regards.

Sincerely,



Sam Peltzman
Professor

SP:kk